

MAYER HOFFMAN McCANN P.C.

Review Report

QUALITY CONTROL REVIEW

For the Firm's Audit of
Kern High School District
for the Fiscal Year Ended June 30, 2002



STEVE WESTLY
California State Controller

December 2003



STEVE WESTLY
California State Controller

December 10, 2003

Benjamin Reyes, CPA
Mayer Hoffman McCann P.C.
5601 Truxton Avenue, Suite 200
Bakersfield, CA 93309

Dear Mr. Reyes:

The State Controller's Office has completed a quality control review of Mayer Hoffman McCann P.C. We reviewed the audit working papers for the firm's audit of Kern High School District for the fiscal year ended June 30, 2002.

A draft report was issued on September 12, 2003. The firm's response to the draft report is included in this final report.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

A handwritten signature in dark ink that reads "Vincent P. Brown". The signature is fluid and cursive.

VINCENT P. BROWN
Chief Operating Officer

VPB:ams

cc: Dr. Larry E. Reider, Superintendent
Kern County Office of Education
William D. Hatcher, Superintendent
Kern High School District
Arlene Matsuura
Department of Education
Chuck Pillsbury
Department of Finance

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Attachment—Firm’s Response to Draft Report

Review Report

Summary

The State Controller's Office (SCO) has completed a quality control review of the audit working papers for an audit performed by Mayer Hoffman McCann P.C. of the Kern High School District for the fiscal year ended June 30, 2002 (FY 2001-02). The last day of fieldwork was June 19, 2003.

The audit referred to above was performed in accordance with the majority of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted governmental auditing standards (GAGAS); generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO. However, the SCO reviewers noted the following exceptions:

- The firm did not comply with GAAS with regard to fieldwork standards for financial audits; and
- The firm did not comply with K-12 Audit Guide requirements with respect to fieldwork, the auditor's report on state compliance, and the reporting requirements with regard to audit findings.

Background

Any governmental unit subject to a single audit must have the audit performed in accordance with the standards referred to in this report. According to Office of Management and Budget (OMB) Circular A-133, the auditor's work is subject to a quality control review at the discretion of an agency granted cognizant or oversight status by the federal funding agency. In addition, *Education Code* Section 14504.2 authorizes the SCO to perform quality control reviews of working papers for audits of K-12 local educational agencies (LEAs) to determine whether audits are performed in accordance with U.S. General Accounting Office (GAO) standards for financial and compliance audits.

Mayer Hoffman McCann P.C. is an independent CPA firm in Bakersfield, California. FY 2001-02 is the first year the firm performed the annual audit for the Kern High School District. The district consists of 19 regular high schools, adult education, and a regional occupational center, as well as other alternative education. The district claims approximately 32,500 in average daily attendance (ADA) for the purpose of state funding.

Mayer Hoffman McCann P.C. performed one audit of an LEA for FY 2001-02.

**Objectives,
Scope, and
Methodology**

The general objectives of the quality control review were to determine whether this audit was conducted in compliance with:

- GAGAS
- GAAS
- K-12 Audit Guide
- OMB Circular A-133

The quality control review was conducted at the office of Mayer Hoffman McCann P.C. in Bakersfield, California. The SCO reviewers compared the audit work performed by the firm, as documented in the working papers, with the standards stated in the general objectives.

Conclusion

The audit referred to above was performed in accordance with the majority of the standards and requirements set forth in GAGAS, GAAS, OMB Circular A-133, and the K-12 Audit Guide. However, the SCO noted the exceptions discussed in the Findings and Recommendations section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Mayer Hoffman McCann P.C.

**Views of
Responsible
Officials**

The SCO issued a draft report on September 12, 2003. Mayer Hoffman McCann responded by the attached letter dated October 14, 2003, disagreeing with some of the review results. The response is included in this final report as the Attachment.

Restricted Use

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Findings and Recommendations

General

The Single Audit Act and the *Standards and Procedures for Audits of K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO, require audits to be performed in accordance with generally accepted auditing standards (GAAS). These standards deal with the quality of the audits performed by the independent auditor and have been approved and adopted by the American Institute of Certified Public Accountants (AICPA). GAAS is divided into three areas: (1) general standards; (2) fieldwork standards; and (3) reporting standards. The three areas are divided into ten specific standards. In addition to GAAS, auditors of governmental entities must also perform audits in accordance with generally accepted government auditing standards (GAGAS), which expands the GAAS standards in several areas.

In the course of this quality control review, the SCO reviewers found that the firm did not comply with GAAS standards with regard to evaluation of samples.

In addition, the firm did not test state compliance requirements of the K-12 Audit Guide and did not comply with reporting requirements.

Noncompliance with Fieldwork Standards for Financial Audits (GAAS)

FINDING 1

This finding has been removed from the final report based on additional information provided by the firm.

FINDING 2— Sampling deficiencies

In testing reported attendance, the firm's initial sample approach was to select four school sites and ten teachers from each school to perform attendance testing. From the ten teachers, the firm selected one period from each of the four weeks in a selected month. The firm performed the testing at one school site and found a low error rate. Based on this error rate, the firm reduced the testing at the other three school sites to five teachers and three periods from one week in the second semester.

The SCO questions why the firm would reduce the testing at the three other schools because of the low error rate at the first school tested. Each school site is considered to be a separate entity with different attendance personnel. Any reduction in testing due to the error rate should be based on the test results at each individual school site.

In addition, as noted in Finding 3, the firm did not expand its testing for the adult education program even though the error rate was 60%.

AU Section 350.29 states:

The auditor should relate the evaluation of the sample to other relevant audit evidence when forming a conclusion about the related account balance or class of transactions.

Section 336 of the K-12 Audit Guide states:

If exceptions are discovered when performing tests, the auditor should assess and evaluate the exception rate and type to determine if the sample should be expanded and additional testing performed. The sample should be representative of the population and sufficient in size to allow the auditor to draw a reasonable conclusion.

If the results from testing based on sampling are not properly evaluated, the conclusions reached may not be accurate. Professional judgment would dictate that the testing results at each school site should have been evaluated separately in terms of whether to expand or reduce the sample. Furthermore, professional judgment would dictate that since the error rate for the adult education program testing was 60%, further testing should have been performed or an explanation as to why further testing was not necessary should have been included in the working papers.

Recommendation

The firm should comply with the guidance on audit sampling and evaluation contained in Statement on Auditing Standards (SAS) No. 39 and Section 336 of the K-12 Audit Guide.

Firm's Response

Inadequate sample size. The SCO reviewer asserts that each school site is a separate system and therefore, results of testing obtained at one school site could not be used to reduce the scope of testing in tests performed in other school sites. We disagree with this finding. The district has invested time and resources in designing a system to be used at all school sites. The purpose of selecting various sites is to test compliance overall with the District's attendance system, and not the specific school site. In addition, the exception rate achieved in the three other school sites were less or approximated the first school site tested, which verified the correctness of our auditor's judgment.

Expansion of error rate to the population and expansion of testing. The finding also refers to an error rate for the adult education program of 60% and questions why the result was not evaluated. We respectfully differ on this finding as the result was evaluated and appropriate actions, in our auditor's judgement, was taken. *The object of the compliance step was to determine if the required counseling session between student, parent/guardian and counselor was documented.* Our testing determined that documentation did exist; however one of the parties (counselor) did not sign in three instances in one of the school site tested. In our auditor's judgment, the non-compliance was not considered an error, as documentation of the session did exist. However, we did evaluate and discuss the non-compliance with District policies; the District acknowledged that the non-compliance (lack of signature) rate was high in this one school site, and therefore no further testing was performed. In addition, the program had been discontinued for this particular site.

SCO's Comment

The firm states that the design of a district-wide attendance system is support for the reduction of testing when a site has a low error rate. This position is in conflict with the purpose of site testing and negates the possibility that different attendance personnel could have different procedures in place at the different sites and thus, a different incidence of errors. In conducting attendance testing, one purpose is to determine the extent to which the stated controls are in place and operating at each of the sites tested. As different people are involved at each of the sites, it can invariably be expected that the application of district attendance policies, and the resultant error rates, will also likely differ between sites. Therefore, one site's low attendance error rate is not supportive of reduced testing at all of the testing sites.

The firm states that the purpose of the adult education counseling session review is to determine the existence of documentation of the session. However, a student's eligibility to participate in adult education classes is conditioned upon more than just the existence of the counseling session. *Education Code* Section 52500.1(b) specifically addresses the eligibility of high school pupils for enrollment in adult education programs, courses, and classes. As stated in the finding, the *Education Code* requires that the counseling session involve the pupil, a certificated representative of the high school, and the pupil's parent or guardian. Without a signature to document the attendance of the counselor, it cannot be verified that he/she was in attendance at this meeting. Therefore, the district is ineligible to receive funding with respect to the concurrently enrolled pupil when the documentation does not include the required components of the counseling session. An expansion of testing when a 60% error rate exists would have been prudent and is a good practice to support in such instances. Had the auditor been uncertain in expanding testing with a 60% error rate, ample guidance is provided by Section 336 of the K-12 Audit Guide. Furthermore, as stated in Section 520 of the K-12 Audit Guide, it is not an option but a requirement to report all over/understatements of ADA.

Noncompliance With K-12 Audit Guide Requirements

FINDING 3— Fieldwork deficiencies

During the review of the firm's working papers, the SCO reviewers noted the following deficiencies with regard to state compliance:

Attendance Reporting

The firm did not compare student absences to documentation supporting the average daily attendance (ADA) that the district reported to the State as directed by procedure 3 for testing of reported attendance. The firm stated that as excused absences were no longer a requirement in apportionment determination, they were not tested. However, this rationale does not take into consideration the compliance requirements for recordkeeping, truancy determination, and accuracy of attendance reporting (counting a student who was absent as being in attendance).

In addition, the firm's working papers disclosed that during attendance testing, discrepancies existed between the teacher's attendance registers and the weekly attendance registers. The most prevalent discrepancy was that the teacher's attendance register showed students as being absent while the weekly attendance registers showed the student as being present. The weekly attendance register is used to report ADA for apportionment purposes. Consequently, the district may have overreported ADA. The firm discussed this finding with the district and concluded that since the ADA could not be quantified, this finding would not be reported in the annual audit report. However, Section 520 of the K-12 Audit Guide requires auditors to quantify any over/under-statements of ADA.

Adult Education

The firm noted that for three of the five students tested to ensure that the counseling sessions were documented, the counselor's signature was not on the application. The firm noted in the working papers that this item had been discussed with district management, but did not expand the sample or quantify the ADA that was ineligible due to the missing counselor's signature.

For the district to be eligible for apportionment for a high school student who is concurrently enrolled in an adult education program, the school must maintain a record that contains written documentation of the counseling session and a statement that the student is voluntarily enrolling in the adult education course (*Education Code* Section 52500.1(b)). The counseling session should include the pupil, a certificated representative of the high school, and the pupil's parent or guardian.

Since the error rate for this test was 60%, the firm should have expanded the sample as directed in Section 336 of the K-12 Audit Guide. In addition, the firm should have quantified the fiscal impact, both in terms of ADA and state funding, as required by *Education Code* Section 14503(a) and as discussed in the Section 520 of the K-12 Audit Guide.

Section 520 of the K-12 Audit Guide states:

Any over/understatements of ADA must be reported in the findings and recommendations section (*Education Code* Sections 41341 (a)(1) and 14503(a)). When the auditor determines that the school district or county office of education has made an error in claiming apportionment attendance, due either to a clerical discrepancy or to noncompliance with attendance regulations, the auditor must quantify the error.

Recommendation

The firm should ensure that it consistently performs the state compliance audit procedures in the K-12 Audit Guide, or documents the reason why the procedure was not performed. In addition, the firm should ensure that

the procedures are performed accurately and completely, and are adequately documented in the working papers. Further, the firm should quantify, in terms of ADA and state funding, any error with regard to attendance reporting and state compliance as stipulated by Section 520 of the K-12 Audit Guide.

Firm's Comments

Attendance reporting – quantifying over/understatement of ADA. We concur with the SCO reviewer's comment. There was a misunderstanding in our office that this requirement applied to all instances of non-compliance and not only to material non-compliance. We have revised our audit procedures for the year ended June 30, 2003 to implement the recommendation on quantifying any over/understatement of ADA on all instances.

Attendance reporting – excused absences. We differ with this finding. We did perform a review of excused absences. A copy of our workpaper, for your review only, is included in this letter.

Adult Education. We disagree with this finding as discussed in our reply to Finding 2.

SCO's Comment

Excused Absences

The firm provided additional documentation that indicates some form of excused absence testing was conducted. However, according to the K-12 Audit Guide, a sample of absences is to be chosen and compared to the documentation maintained by the district. The working papers do not indicate the sample size chosen or document the actual sample tested. The working papers state, ". . . we randomly chose several absences from each WAR [Weekly Attendance Report] report and verified the absence in the written daily attendance log kept by the attendance clerks. No discrepancies noted." However, during the firm's testing of attendance, exceptions were noted when the WAR report showed the student as being present, and the teacher attendance register, which is the source document, recorded the student as absent. As absent students were marked present, the actual absence would not have a chance to be chosen for verification purposes. The source documents should have been used to select the sample. In addition, the firm's working papers should state that the K-12 Audit Guide was not followed and alternative procedures were used. This departure was not documented in the audit report as required. Finding 4 covers the reporting deficiencies.

The finding remains as stated.

Adult Education

See the SCO's comment in Finding 2, for adult education.

The finding remains as stated.

**FINDING 4—
Reporting deficiencies**

The auditor's report on state compliance lists all of the programs to be tested for state compliance requirements and the number of audit procedures for each program. The auditors are directed to provide an explanation, in the report, when a program is not tested, an audit procedure is not performed, or an alternate procedure is performed (*Education Code* Section 14503(a)). The firm's report on state compliance states it performed the four suggested audit procedures for attendance reporting that were included in the audit guide. As noted in Finding 3, the auditor did not perform all of the suggested audit procedures for attendance reporting and did not provide an explanation as to why all procedures were not performed.

Also, the firm's working papers disclosed that during attendance testing discrepancies existed between the teacher's attendance registers and the weekly attendance registers. The most prevalent discrepancy was that the teacher's attendance register showed students as being absent while the weekly attendance registers showed the student as being present. The weekly attendance register is used to report ADA for apportionment purposes. Consequently, the district may have overreported ADA. The firm discussed this finding with the district and concluded that since the ADA could not be quantified, this finding would not be reported in the annual audit report.

In addition, the firm did not include findings noted in its testing of adult education and the Regional Occupational Program (ROP) in the findings and recommendations section of the audit report. Further, the firm did not quantify the fiscal impact of the district's noncompliance with the adult education program requirements or report the district's overreporting of ROP attendance by .70 ADA.

Section 520—State Compliance of the K-12 Audit Guide states that any over/understatements of ADA must be reported in the findings and recommendations section of the audit report (*Education Code* Sections 14503 and 41341(a)(1)). It further states that when the auditor determines that an error in claiming apportionment attendance is due either to a clerical discrepancy or to noncompliance with attendance regulations, the auditor must quantify the error.

Education Code Section 14503(a) states:

Every audit report shall specifically and separately address each of the state compliance program requirements included in the audit guide, stating whether or not the district is in compliance with those requirements. For each state program compliance requirement included in the audit guide, every audit report shall further state the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed. If a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the

number of units of average daily attendance, if any, that were inappropriately reported for apportionment.

Recommendation

The firm should include in the auditor's report on state compliance the actual number of procedures performed for each program and, if not all procedures were performed, provide a explanation why the procedure was not performed and/or a description of the alternate procedure that was performed. In addition, the firm should report all state compliance findings in the findings and recommendations section of the audit report as required by *Education Code* Section 14503(a).

Firm's Response

See our response to Finding 3.

SCO's Comment

State compliance reporting guidelines are specifically detailed in *Education Code* Section 14503(a), which states:

Every audit report shall specifically and separately address each of the state compliance program requirements included in the audit guide, stating whether or not the district is in compliance with those requirements. For each state program compliance requirement included in the audit guide, every audit report shall further state the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed. If a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment.

The finding remains as stated.

**Attachment—
Firm's Response to Draft Report**



Mayer Hoffman McCann P.C.
An Independent CPA Firm

5601 Truxtun Ave., Suite 200
Bakersfield, California 93309
661-325-7500 ph
661-325-7004 fx
www.mhm-pc.com

October 14, 2003

Cassandra Moore-Hudnall
Chief, Financial Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, Ca. 94250-5874

Dear Ms. Moore-Hudnall:

~~First of all, I would like to thank your office for allowing us to submit this response to your letter~~
dated September 12, 2003 reporting your quality control review findings on Mayer Hoffman McCann P.C.'s audit of the Kern High School District for the year ended June 30, 2002. We understand that our comments should address the accuracy of the data presented in your report and that the final report may also incorporate our response. Our comments listed below refer to your findings and, for sake of brevity; we have tried not to refer to every matter discussed in your draft letter in detail.

FINDING 1 – EVIDENTIAL MATTER DEFICIENCIES

We respectfully differ with this finding. The SCO reviewers selected a subsidiary work paper (M-2.2), reviewed the information provided in the work paper, and may have arrived at their conclusion without considering the related work papers to which it was cross-referenced to. Our primary concern, however, is to clear up any misunderstanding as to how our work papers meet and exceeds generally GAAS and GAGAS. Our detail discussion follows.

Contribution rates not supported by work papers. We respectfully differ with your finding. Finding 1 state, " In comparing the note disclosure ...the SCO reviewers noted that the contribution rates -8% and 8.25%-for the employee and employer contributions, respectively, as disclosed in the notes were not supported by the work papers." Those work papers were not designed to support the specific objective asserted by the reviewers (.e. to present the calculation of the 8% and 8.25% rates). The work papers referred to in this finding 1 were designed to document the work related to a specific audit step, which was, GAP 8 Step 4.b." Compare pension expenditures to the number of covered employees, and compare to the same relationship in the prior period". This specific objective was met by work paper M-2, and subsidiary work

5601 Truxtun Avenue, Suite 200 Bakersfield, California 93309 661/235-7500 Fax 661/235-7004
11601 Wilshire Blvd. Suite 2300 Los Angeles, CA 90025 310/268-2000 Fax 310/268-2001
300 Esplanade Drive, Suite 250 Oxnard, California 93030 805/988-3222 Fax 805/988-3220
www.mhm-pc.com

Cassandra Moore-Hudnall
Chief, Financial Audits Bureau
State Controller's Office
Division of Audits
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papers M-2.1 and M-2.2. A copy of this audit program and related work papers (M-1, M-2, and M-3) are included in this letter.

Conflicting data on work papers. The finding refers to a work paper (referred to above as M-2-2) indicating that contributions made were at contribution rates of 4% and 4.13% and conflicts with the contribution rates of 8% and 8.25% disclosed in the notes. In addition, the finding refers to possible under funding.

Let us review the purpose of the work paper. Work paper M-2-2 is a client prepared schedule and contained four columns of numbers. One of the columns, the employer STRS contributions, was used to arrive at an average monthly STRS contribution amount. This monthly amount was then carried forward to work paper M-2. Work paper M-2 provided a comparison on current year monthly average to last year's monthly averages. On work paper M-2 we noted the consistency from year. On work paper M-1, we referred to GAP-8, step 4.b. and described our conclusion as a result of the work performed on work paper M-2.

The contribution rates of 4.0% and 4.13% were not data included in the work paper M-2-2 but independent calculation made by the SCO reviewer. In arriving at the percentages, the SCO reviewer used a gross payroll column that represented double the actual payroll. The payroll clerk who prepared the schedule had summed up two columns that were used to compute the employee and employer contributions as if they were two different payrolls, thus doubling up the payroll amount. The fact that the percentages were exactly 50% less than the required contributory supports this fact. A recalculation results in contribution rates approximating 8% and 8.25%. Again, we would like to point out that the purpose of this work paper was to document the source of data used in the analytical review of contributions (work paper M-2).

Non-compliance with standards. Quoted within Finding 1 are various standards *AU Section 326.13*, *AU Section 326.16*, *AU Section 339.03*, and *GAGAS 4.35* as standards that were not met. We believe that our work papers as designed do meet or exceed the requirements of the standards referred to in the preceding sentence. We believe that our work papers as described in the following paragraphs meet the standards for evidential matter, consideration of accounting data, and sufficiency as discussed below.

GAGAS 4.35, *AU Section 326.13*, and *AU Section 339.03*. Our work papers referred to in this finding can best be described as the governmental audit program for payroll and related liabilities. The work papers consist of an audit program (GAP-8), a summary memorandum describing the work that was performed for each program step (M-1), and supporting work papers (M-2) containing calculations and accounting data. We believe that all three elements, which are properly cross-referenced, meet the requirements stated in *GAGAS 4.35*, *AU Section 326.13*, and *AU Section 339.03*.

MAYER HOFFMAN MCCANN P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Cassandra Moore-Hudnall
Chief, Financial Audits Bureau
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AU Section 326.13. The audit program GAP-8 contains financial statement assertions 1 through 5 and such assertions are connected to audit objectives A, B and C, and such audit objectives are connected to program steps 1 through 7. By performing the individual steps and documenting each step with narratives and supporting work papers, we believe **that we have met the requirements of AU Section 326.13 as described in your letter.**

FINDING 2 – SAMPLING DEFICIENCIES

Inadequate sample size. The SCO reviewer asserts that each school site is a separate system and therefore, results of testing obtained at one school site could not be used to reduce the scope of testing in tests performed in other school sites. We disagree with this finding. The district has invested time and resources in designing a system to be used at all school sites. The purpose of selecting various sites is to test compliance overall with the District's attendance system, and not the specific school site. In addition, the exception rate achieved in the three other school sites were less or approximated the first school site tested, which verified the correctness of our auditor's judgment.

Expansion of error rate to the population and expansion of testing. The finding also refers to an error rate for the adult education program of 60% and questions why the result was not evaluated. We respectfully differ on this finding as the result was evaluated and appropriate actions, in our auditor's judgment, was taken. *The object of the compliance step was to determine if the required counseling session between student, parent/guardian and counselor was documented.* Our testing determined that documentation did exist; however one of the parties (counselor) did not sign in three instances in one of the school site tested. In our auditor's judgment, the non-compliance was not considered an error, as documentation of the session did exist. However, we did evaluate and discuss the non-compliance with District policies; the District acknowledged that the non-compliance (lack of signature) rate was high in this one school site, and therefore no further testing was performed. In addition, the program had been discontinued for this particular site.

FINDING 3 – FIELDWORK DEFICIENCIES

Attendance reporting – quantifying over/understatement of ADA. We concur with the SCO reviewer's comment. There was a misunderstanding in our office that this requirement applied to all instances of non-compliance and not only to material non-compliance. We have revised our audit procedures for the year ended June 30, 2003 to implement the recommendation on quantifying any over/understatement of ADA on all instances.

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MAYER HOFFMAN MCCANN P.C.
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Cassandra Moore-Hudnall
Chief, Financial Audits Bureau
State Controller's Office
Division of Audits
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Adult Education. We disagree with this finding as discussed in our reply to Finding 2.

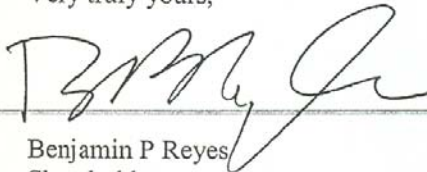
FINDING 4 – REPORTING DEFICIENCIES

See our response to Finding 3.

In closing, we respectfully request that you consider our response and amend your findings as follows:

1. The firm did comply with GAAS and GAGAS and therefore, delete the comment from your report.
2. Amend the findings on state compliance to discussing the issue of quantifying and reporting over/understatements of ADA and related reporting requirements.

Very truly yours,



Benjamin P Reyes
Shareholder
Mayer Hoffman McCann P.C.

MAYER HOFFMAN MCCANN P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>